

**BRIEF TO HOUSE OF
COMMONS COMMITTEES
ON FOSSIL FUEL SUBSIDIES REFORM**

UNITED NATIONS ENVIRONMENT PROGRAM

PROGRAMME DES NATIONS UNIES
POUR L'ENVIRONNEMENT



Recommendations:

- Recommendation 1: That the government reports at federal and provincial level on indicator SDG12.c.1 regarding the measure of fossil fuel subsidies as part of the UN SDG reporting process, to ensure accurate and transparent monitoring of existing subsidies.
- Recommendation 2: That the government conducts an analysis of annual budget expenditure to estimate at a disaggregated level the share of spending allocated to green and non-green sectors, with a focus on fossil fuel industries.
- Recommendation 3: That the government develops a communication strategy and a roadmap for a reform of fossil fuel subsidies, drawing lessons from successful experiences of reform in other countries.
- Recommendation 4: Government prioritize fiscal spending that supports green recovery and invest in long-term low-carbon solutions, rather than short-term unsustainable expenditures on subsidizing fossil fuels.

Key Messages:

- In 2021 governments spent \$423 billion subsidizing fossil fuel production and consumption.¹ To put this in a perspective, when tracking public spending of 87 countries during the pandemic, green recovery spending amounts to only USD 970 billion out of total spending of USD 18.16 trillion².
- The reform of such subsidies is key in working towards resolving the triple planetary crisis—climate, nature and pollution—in a holistic and inclusive manner and to support financing Green Recovery and the SDGs.
- First on climate, nearly 60% of oil and fossil methane gas and 90% of coal must remain unextracted to keep within a 1.5 °C carbon budget³.
- FFS reform is a key building block to achieve the international goal of limiting global warming to below 2°C⁴.
- Fossil-fuel subsidies are one of the biggest barriers hampering the shift to renewable energy (84% of energy globally is still sourced from fossil fuel)⁵.
- But change is possible: At least 53 countries reformed their fossil-fuel subsidies between 2015 and 2020⁶. FFS reform is included in 14 Nationally Determined Contributions⁷.
Reforming FFS is key in working towards resolving the triple planetary crisis—climate, nature and pollution—in a holistic and inclusive manner.
- Air pollution claims the lives of 1 out of every 9 lives lost every year and is the single biggest health risk facing people across the world⁸.
- Eliminating fossil fuel subsidies combined with taxing fossil fuels could cut pre-mature air pollution deaths by more than half⁹.
- Untargeted fossil fuel subsidies promote wasteful consumption and exacerbate environmental pollution¹⁰.
- On nature front, extraction of fossil fuels contaminates water and soil, destroy trees and vegetation, and increase the frequency of mudslides, landslides, and flash floods
- A study shows A 10% increase in per capita fossil fuel subsidies increases their ecological footprint by 0.3% to 1.5%¹¹.

¹ Kurukulasuriya, Pradeep, “Fossil fuel subsidies reform could limit climate change while tackling global inequalities. Here’s how,” *UNDP*, November 3, 2021, <https://www.undp.org/blog/fossil-fuel-subsidies-reform-could-limit-climate-change-while-tackling-global-inequalities>.

² “[Are we Building Back Better?](#)” *UNEP*, 2021.

³ Welsby, D., Price, J., Pye, S. *et al.* Unextractable fossil fuels in a 1.5 °C world. *Nature* **597**, 230–234 (2021). <https://doi.org/10.1038/s41586-021-03821-8>.

⁴ “World Energy Outlook 2015,” *IEA*, November, 2015.

⁵ Hannah Ritchie and Max Roser (2020) - “[Energy](#)”. Published online at OurWorldInData.org. Retrieved from: 'https://ourworldindata.org/energy'

⁸ “A Special Report On Global Exposure To Air Pollution And Its Health Impacts,” *State of Global Air*, 2020.

⁹ Coady, David *et al.*, “The Unequal Benefits of Fuel Subsidies Revisited: Evidence for Developing Countries,” *IMF* (working paper), November, 2015.

¹⁰ Solarin, S. A., “Towards Sustainable Development in Developing Countries: Aggregate and Disaggregate Analysis of Energy Intensity and the Role of Fossil Fuel Subsidies,” *Sustainable Production and Consumption*, 24 (2020): 254-265. <https://doi.org/10.1016/j.spc.2020.07.011>.

¹¹ Solarin, S.A., “An environmental impact assessment of fossil fuel subsidies in emerging and developing economies”, *Environmental Impact Assessment Review* Volume 85, November 2020. <https://doi.org/10.1016/j.eiar.2020.106443>

- Transfer of environmental risks to governments such as facilities decommissioning and sites decontamination is an indirect fossil fuel subsidy¹².
- Fossil Fuel Subsidy reform can also support financing Green Recovery and the SDGs
- Globally countries are facing very severe fiscal constraints to simultaneously respond to the pandemic, build resilience to climate change, and get back on track to achieve the SDGs in this Decade of Action. Government net debt as share of GDP increased from 75% to 90% from 2019 to 2021 in advanced economies, from 39% to 45% in emerging economies.¹³
- When you look at energy budget allocations in recovery packages, however, out of 34 major economies and 8 Multilateral Development Banks, 40% of allocations went to fossil fuel-intensive sectors¹⁴.
- According to the IMF, the economic multiplier of green recovery vis a vis BAU is 7 times higher.¹⁵ Governments must prioritize fiscal spending that supports green recovery and invest in long-term low-carbon solutions, rather than short-term unsustainable expenditures on subsidizing fossil fuels.
- The reform of FFS represents a large potential source for social and green investments. Just 10-30% of global fossil fuel subsidies could pay for a transition to clean energy at the global level¹⁶.
- The reform of FFS would be most effective when implemented together with taxing FF energy. Investments in low-carbon technology and infrastructure can also be boosted by additional instruments and carbon pricing initiatives, such as carbon taxes and emissions trading schemes.
- The first step toward the reform of FFS is to improve the transparency by measuring subsidies and track progress. SDG include rationalizing by 2030 inefficient fossil-fuel subsidies that encourage wasteful consumption by removing market distortions (SDG12c1).
- As an indicator, SDG 12c1 provides a guidance to measure **'Amount of fossil-fuel subsidies per unit of GDP (production and consumption) and as a proportion of total national expenditure on fossil fuels'**.
- SDG 12.c.1 will enable comprehensive tracking of consumer and produce subsidy trends and serve as a guide for energy interventions that reinforce the 2030 Agenda.
- UNEP, as a custodian agency to this indicator, is responsible for providing guidance to UN member countries on how to report on this indicator. Overall guidance on how to measure FFS including the definition and the recommended types of subsidies to be reported is being provided in UNEP's report on Measuring Fossil Fuel Subsidies in the Context of Sustainable Development Goals¹⁷.
- Globally countries are increasingly taking actions to reform FFS. Between 2015 and 2020, at least 53 countries reformed their fossil-fuel subsidies¹⁸. FFS reform is also included in 14 Nationally Determined Contributions¹⁹.

¹² "[Measuring Fossil Fuel Subsidies in the Context of the Sustainable Development Goals](#)," UNEP, 2019.

¹³ "Fiscal Monitor – Strengthening the Credibility of Public Finances, October 2021", IMF, 2021

¹⁴ Find data at: <https://www.energypolicytracker.org/>

¹⁵ Batini et al. "[Building Back Better: How Big Are Green Spending Multipliers?](#)", IMF, 2021

¹⁶ "Reforming Subsidies Could Help Pay for a Clean Energy Revolution: Report," IISD, June, 2019.

¹⁷ "Measuring Fossil Fuel Subsidies in the Context of Sustainable Development Goals," UNEP, 2019.

¹⁸ Sanchez, Lourdes et al., "53 Ways to Reform Fossil Fuel Consumer Subsidies and Pricing," IISD, August 19, 2020.

¹⁹ "Measuring Fossil Fuel Subsidies in the Context of the Sustainable Development Goals," UNEP, 2019.

- Overall, the successes and failures of past subsidy reforms illustrate the economic and political complexities and underscore the need for tailored and effectively designed reforms.
- The current context of rapid increase in energy prices makes it all the more politically challenging for Government to remove subsidies. However, it is important to note that the fiscal burden they bring is also swelling, and countries which fail to address the issue early on will pay a costly price.

Summary of recommendations:

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Since its inception in 1972, the United Nations Environment Programme (UNEP) has been the global authority that sets the environmental agenda, promotes the coherent implementation of the environmental dimension of sustainable development within the United Nations system and serves as an authoritative advocate for the global environment.

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